

October 20, 2003

The Honorable Mayor  
and Members of the City Council  
City of Eastpointe  
23200 Gratiot Avenue  
Eastpointe, MI 48021

Dear Mayor and Council Members:

We have recently completed the audit of the financial statements of the City of Eastpointe for the year ended June 30, 2003. In addition to the audit report, we offer the following comments and recommendations for your consideration:

#### **INTERNAL CONTROL MATTERS**

In planning and performing our audit of the financial statements of the City of Eastpointe for the year ended June 30, 2003, we considered the City's internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted instances involving the internal control and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components do not reduce, to a relatively low level, the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted the following reportable condition that we believe to be a material weakness.

The City's existing water and sewer customer billing software has limited functionality. The most significant limitation is that it does not allow for an accurate detailed receivables report that can be reconciled to the general ledger. As a result, monthly reconciliations are not being performed and as of June 30, 2003, the general ledger differs from the subsidiary ledger by approximately \$260,000. In addition, due to the inability to reconcile on a monthly basis, a significant error went undetected for nearly a year before a correcting entry was made.

In order to have the necessary checks and balances in place for a sound internal control system, we recommend replacing, modifying or refining the existing software with software that has adequate report parameters to allow for monthly reconciliations between the subsidiary ledger and the general ledger.

### **ACCOUNTS PAYABLE**

The City's accounting software failed to include a significant amount of expenditures in accounts payable at June 30, 2003. Once this error was brought to the attention of the City, the City examined all encumbrance accounts and manually posted a journal entry to correct such errors. Utilizing the corrected balance, we selected nine disbursements for testing and noted four instances in which items were improperly excluded from accounts payable as of June 30, 2003. In an effort to minimize the risk of human error and to diminish the administrative burden of manually posting accounts payable, we recommend consulting with the accounting software vendor to ensure the system is running succinctly with the City's reporting goals. In addition, a supervisory review of the accounts payable balance should be performed on a monthly basis.

Also during our testing of accounts payable, we noticed instances in which documentation could not be provided to substantiate construction payments made to a particular vendor. While the City has a contract with this vendor, the vendor does not bill the City for work performed. Rather the City inspects the work performed and then submits payments to the vendor. Evidence could not be provided to document when the work was completed or how the amount paid was substantiated. An essential bookkeeping and internal control function is the safekeeping and filing of documentation, which supports all general ledger transactions. We recommend requesting and maintaining adequate documentation to support all general ledger transactions.

### **WATER AND SEWER OPERATIONS**

The City bills for water usage and sewage disposal on a quarterly basis. Approximately 50 percent of all billings are based on estimated meter readings. We encourage the City to review its procedures for obtaining actual meter reads. Many municipalities have been able to improve the efficiency of the meter reading process by implementing electronic meter reads. We recommend the City consider the implementation of electronic meter reads to gain efficiency and accuracy in the meter reading process.

Also during our testing of water and sewer, we noticed that the receivable for delinquent water bills doubled from the prior year. When residents are delinquent in paying their water bills, rather than shutting off the resident's water, the City places the charges and penalties on the resident's tax bill. It would appear that many residents are taking advantage of this policy. We recommend the City consider the timing of cash flows using this policy vs. denying water usage to residents that are delinquent.

### **CREDIT CARD POLICY**

Upon review of the City's Credit Card Usage policy, we noted the policy is outdated and includes names of individuals no longer employed with the City. We suggest that the City update the resolution and policy to reflect current practices.

Honorable Mayor  
and Members of the City Council  
City of Eastpointe

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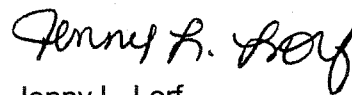
We would like to thank the Mayor and City Council for the opportunity to serve as auditors for the City. We would also like to compliment Sue Mancani and her staff for the excellent condition of the City's financial records, and thank them for their assistance and cooperation during the audit. If you would like to discuss any of these matters further, or would like any other assistance, please contact us.

Very truly yours,

**PLANTE & MORAN, PLLC**



Bruce M. Berend



Jenny L. Lorf